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December 1, 2004

VIA HAND DELIVERY

Chairman Pat Miller
c/o Sharla Dillon, Docket Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

Re: *Petition of Tennessee American Water Company to Change and Increase Certain Rates and Charges So As to Permit It to Earn a Fair and Adequate Rate of Return on Its Property Used and Useful In Furnishing Water Service to Its Customers, Docket No. 04-00288.*

Dear Chairman Miller

I have enclosed for filing in the above-referenced docket the original and 13 copies of Tennessee American Water Company's Responses to the Requests for Admissions from the Consumer Advocate and Protection Division of the Attorney General for the State of Tennessee that were served on November 15, 2004.

I have also enclosed an additional copy of the document, which I would appreciate your stamping as "filed," and returning to me by way of our courier.

Should you have any questions with respect to this filing, please do not hesitate to contact me at the telephone number listed above.

Sincerely,



Davidson French

DF/am
Enclosures

cc: Certificate of Service List
Mr Paul Diskin
T.G. Pappas, Esq

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**PETITION OF TENNESSEE AMERICAN
WATER COMPANY TO CHANGE AND
INCREASE CERTAIN RATES AND
CHARGES SO AS TO PERMIT IT TO
EARN A FAIR AND ADEQUATE RATE
OF RETURN ON ITS PROPERTY USED
AND USEFUL IN FURNISHING WATER
SERVICE TO ITS CUSTOMERS**

Docket No. 04-00288

**TENNESSEE AMERICAN WATER COMPANY'S
RESPONSES TO CONSUMER ADVOCATE'S REQUESTS FOR ADMISSIONS**

Petitioner, Tennessee American Water Company, submits the following responses to the Consumer Advocate's Requests for Admissions served on November 15, 2004.

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

1. Q. RWE GUARANTEES TENNESSEE AMERICAN'S LIABILITIES

RESPONSE:

A. Deny. Tennessee American's liabilities are not guaranteed by RWE. The liabilities of Tennessee American Water as a stand alone corporation are guaranteed by the assets of the Tennessee American Water Company

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

2. Q THE COST OF CAPITAL MUST BE LINKED TO THE SPECIFIC INVESTMENT UNDER CONSIDERATION.

RESPONSE:

Deny. The cost of capital must be linked to the risk of the specific investment under consideration. All investments of the same risk will have the same cost of capital.

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

3. Q. FOR A COMPANY PROVIDING WATER SERVICES, THE MOST DIRECTLY COMPARABLE COMPANY WOULD BE ANOTHER COMPANY PROVIDING WATER SERVICE.

RESPONSE:

Deny. The most directly comparable company would be another company of the same risk. Water companies would normally be companies of the same risk. However, because water companies are not widely followed in the investment community, the results of applying the DCF or CAPM models to water companies are highly uncertain. Also see response to Questions 44 through 46 in Dr. Vander Weide's direct testimony.

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

4. Q. WATER ACTIVITIES ARE LOW RISK ACTIVITIES.

RESPONSE:

Deny. Investing in the facilities required to provide water services is subject to the risks enumerated on pp 9 – 11 in Dr. James H. Vander Weide's filed direct testimony.

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

5. Q. ECONOMIC CYCLES HARDLY AFFECT A WATER BUSINESS.

RESPONSE:

Deny Industrial water usage depends on the economic cycle.

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

6. Q. EQUITABLE RESOURCES IS NOT A NATURAL GAS LOCAL DISTRIBUTION COMPANY.

RESPONSE:

Deny. Equitable Resources is a company that has significant operations in both the regulated natural gas distribution business and the regulated natural gas pipeline business.

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

7. Q. EQUITABLE RESOURCES IS A NATURAL GAS DIVERSIFIED COMPANY.

RESPONSE:

Deny. See response to 6

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

8. Q. AN INVESTOR SELLS A STOCK BECAUSE THE INVESTOR ANTICIPATES THAT THE STOCK'S PRICE WILL DECLINE.

RESPONSE:

Deny. There are several reasons why an investor would sell a stock. Primarily, an investor might sell a stock because the investor anticipates that the rate of return on the stock will be less than the rate of return the investor could earn on other investments of the same risk.

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

9. Q. IT IS MOST APPROPRIATE TO ESTIMATE FUTURE INVESTMENT EXPERIENCE FROM PAST INVESTMENT PERFORMANCE.

RESPONSE:

Deny. The analyst should estimate future investment experience from the best information available.

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

10 Q. PROVIDE ANY AND ALL DOCUMENTS AND THINGS RELIED UPON BY
ANY TAWC WITNESS IN SUBMITTING TESTIMONY IN THIS MATTER.

RESPONSE:

Objection. The question is overly broad. Dr. Vander Weide has been an expert in finance and regulatory economics for more than 30 years, and it would be impossible for him to cite or enumerate all of the documents that have helped him form his opinions. In reaching his numerical conclusions regarding the cost of equity in this proceeding, Dr. Vander Weide specifically relied on the studies shown in Schedules A – F attached to his filed testimony.

**Requests for Admission
by the Attorney General (Second Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

11. Q. IF YOUR RESPONSE TO ANY REQUEST FOR ADMISSION IS OTHER THAN AN UNQUALIFIED ADMISSION, STATE FOR EACH SUCH REQUEST FOR ADMISSION THE FOLLOWING:
- a. ALL FACTS THAT YOU CONTEND SUPPORT IN ANY MANNER YOUR RESPONSE TO THE EXTENT IT IS NOT A COMPLETE ADMISSION;
 - b. FOR ANY INFORMATION YOU CONTEND IS INCORRECT OR INACCURATE PROVIDE THE CORRECT INFORMATION;
 - c. IDENTIFY ALL DOCUMENTS, OR ANY TANGIBLE OR INTANGIBLE THING THAT SUPPORTS IN ANY MANNER YOUR LACK OF ADMISSION OR YOUR QUALIFICATION OF YOUR ADMISSION;
 - d. THE NAME AND ADDRESS OF THE CUSTODIAL OF ALL TANGIBLE THINGS IDENTIFIED IN RESPONSE TO SUBSECTION (B) OF THIS INTERROGATORY; AND
 - e. THE NAME AND ADDRESS OF ALL PERSONS, INCLUDING CONSULTANTS, PURPORTING TO HAVE ANY KNOWLEDGE OR FACTUAL DATA UPON WHICH YOU BASE YOUR LACK OF ADMISSION OR YOUR QUALIFICATIONS OF YOUR ADMISSION.

RESPONSE:

- A Please refer to the individual Requests for Admission for the information requested.

Respectfully submitted,



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*Counsel for Petitioner
Tennessee American Water Company*

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Responses to Requests for Admission from the Tennessee Office of the Attorney General, through the Consumer Advocate and Protection Division, have been served via the method(s) indicated, on this the 1st day of December, 2004, upon the following:

- ☐ Hand
- ☒ Mail
- ☒ Facsimile
- ☒ Overnight

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